

Global FX Monthly Outlook

More evidence of a slowdown in the US and dovish Fed speak to boost EUR and GBP

EUR (1.090) ▲

- Both the European Central Bank (ECB) and the Fed decided to maintain their status quo in December. However, the Fed's shift towards a dovish stance triggered a significant downturn in both the USD index (DXY) and the 10-year US Treasury yield, thereby bolstering the EUR. However, the EUR's gains were capped by the ECB's subtle lean towards dovishness, coupled with diminishing inflationary pressures and lacklustre economic indicators across the eurozone.
- Elevated borrowing costs and the depletion of consumer savings are expected to impact the US economy soon, potentially prompting the Fed to implement more rate cuts than indicated for 2024. Consequently, the DXY is anticipated to trend lower as investors continue to unwind their long USD positions, driving the EUR to conclude 2023 at around 1.10/USD. Nevertheless, EUR remain under pressure due to the looming possibility of the bloc's economy slipping into a recession in 2024.

GBP (1.268) ▲

- The divergence between the Bank of England (BoE) and the Fed's tone has helped to boost the GBP above the 1.26 level against the USD. Notably, the BoE maintains its hawkish stance, underscored by the endorsement of three hawks voting for an additional hike in December. In contrast, the Fed adopts a softer tone. Despite still robust US economic figures (i.e. retail sales), the market continued to price in more rate cuts by the Fed in 2024, benefiting the pound.
- The GBP is expected to close 2023 around the 1.27 level, with potential for continued strengthening in 1Q24 as the BoE may continue to push back against the market dovish expectations. However, any emerging signs of economic fragility in the UK may compel the BoE to reconsider its stance, thereby exerting downward pressure on the GBP and limiting its gains against the weakening USD.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q3-23	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Q4-24F	
EURUSD	1.057	1.096	1.133	1.162	1.179	1.197	▲
GBPUSD	1.220	1.273	1.325	1.358	1.379	1.400	▲

	Short Term (Technical)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
EURUSD	58.207	1.083	1.108	1.124	1.065	1.039	—
GBPUSD	62.324	1.256	1.284	1.304	1.229	1.194	▼

Signal for Base Currency Trend = ▲ Bullish — Neutral ▼ Bearish

*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

RSI (14): 14-day Relative Strength Index

Measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions. A reading of 75 or above indicates an overbought situation while a reading of 25 or below indicates an oversold condition.

EMA (21): 21-day Exponential Moving Average

EMA gives more weight to the most recent periods, places more emphasis on what has been happening lately. Old data points retain a multiplier even if they are outside of the selected data series length.

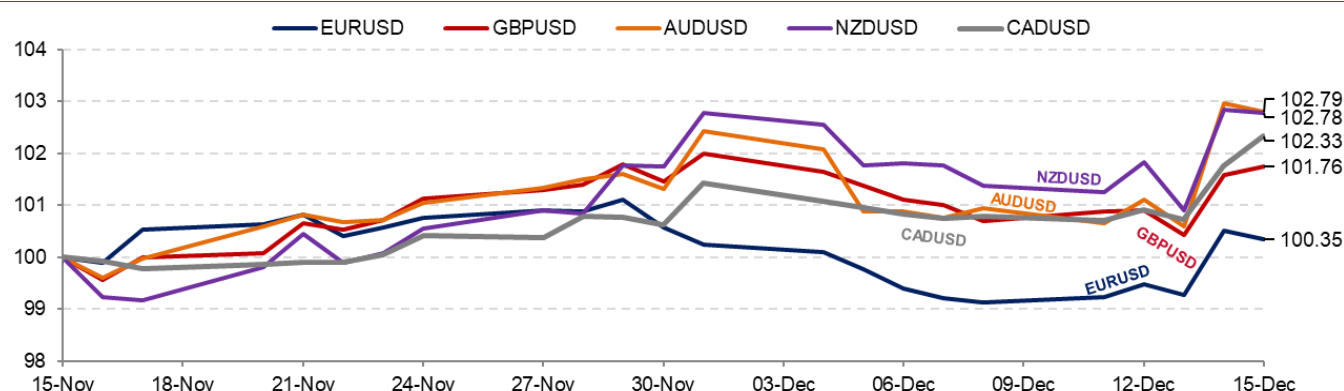
$$EMA = (P \times \alpha) + [Previous EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	2.4 (Oct: 2.9)	6.5 (Sep: 6.5)	-0.1 (2Q23: 0.1)	4.50	2.89 (end-Nov: 3.26)
United Kingdom	4.6 (Sep: 6.7)	4.2 (Sep: 4.2)	0.0 (2Q23: 0.2)	5.25	3.69 (end-Nov: 4.18)

Source: Kenanga Research, Bloomberg

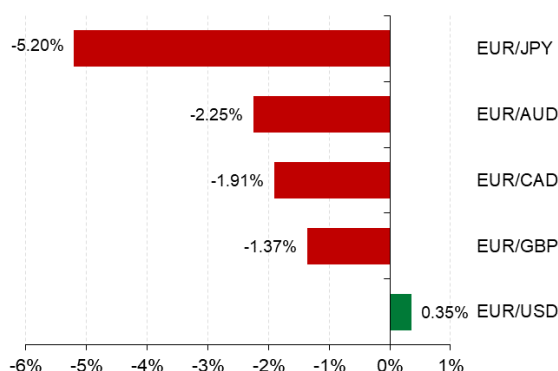
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

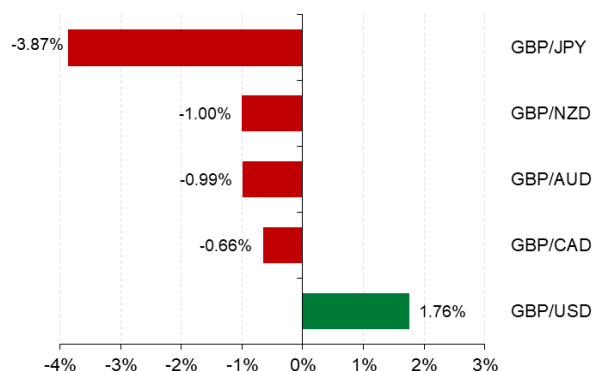
18 December 2023

Graph 2: Monthly Performance of Core Pairs (EUR)*



Source: Kenanga Research, Bloomberg
*Start date: 15 November, End date: 15 December

Graph 3: Monthly Performance of Core Pairs (GBP)*



Source: Kenanga Research, Bloomberg
*Start date: 15 November, End date: 15 December

Table 3: Key Major Data Release And Policy Announcement for the Month

Date	Country	Indicator	Previous	Consensus/Forecast
19/12/2023	US	Building Permits Preliminary (NOV)	1.498m	1.470m
20/12/2023	UK	Inflation Rate (NOV)	4.6% YoY	4.4% YoY
22/12/2023	UK	Retail Sales (NOV)	-0.3% MoM	0.4% MoM
22/12/2023	US	Core PCE Price Index (NOV)	0.2% MoM	0.2% MoM
22/12/2023	US	Durable Goods Orders (NOV)	-5.4% MoM	2.0% MoM
22/12/2023	US	Personal Spending (NOV)	0.2% MoM	0.3% MoM
3/1/2024	US	ISM Manufacturing PMI (DEC)	46.7	N/A
3/1/2024	US	JOLTs Job Openings (NOV)	8.733m	N/A
4/1/2024	US	FOMC Minutes	N/A	N/A
5/1/2024	EA	Inflation Rate Flash (DEC)	2.4% YoY	N/A
5/1/2024	US	Non Farm Payrolls (DEC)	199.0k	N/A
8/1/2024	EA	Retail Sales (NOV)	0.1% MoM	N/A
9/1/2024	EA	Unemployment Rate (NOV)	6.5%	N/A
11/1/2024	US	Core Inflation Rate (DEC)	0.3% MoM	N/A
12/1/2024	UK	GDP (NOV)	-0.3% MoM	N/A
12/1/2024	US	PPI (DEC)	0.0% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my